

Message Text

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PAGE 01 COLOMB 01489 01 OF 02 280711Z

ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 AGRE-00 PA-01 PRS-01 /080 W

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P 280550Z APR 77

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 7194

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E.O. 11652: N/A

TAGS: EFIN, EAID, CE

SUBJ: SRI LANKA BALANCE OF PAYMENTS: ESTIMATES FOR 1976 AND
REVISED PROJECTIONS FOR 1977

REF: (A) COLOMBO 0082; (B) COLOMBO 1212

1. SUMMARY: IN COMPARISON WITH LATEST ESTIMATES FOR 1976, MID APRIL PROJECTIONS FOR 1977 SHOW RAPID INCREASE IN EXPORTS, EVEN GRATER INCREASE IN IMPORTS, DOUBLING OF NET AID RECEIPTS, SIZABLE REPAYMENTS OF CREDITS AND IMF BORROWINGS, AND FOREIGN EXCHANGE GAP OF \$60 MILLION. UNCERTAINTIES OVER CONTINUED HIGH TEA PRICES, IMPACT OF RUPEE REVALUATION, AND ABILITY OF ECONOMY TO ABSORB LARGE INCREASE IN IMPORTS MAKE LATEST 1977 PROJECTIONS MORE FALLIBLE THAN USUAL. END SUMMARY.

2. TABLE BELOW SHOWS ESTIMATED BALANCE OF PAYMENTS DATA FOR 1975 PREPARED BY EXTERNAL RESOURCES DIVISION (ERD) AND MID-APRIL PROJECTIONS FOR 1977. AS EXPLAINED IN PREVIOUS REPORTS, ERD PROJECTIONS ARE GIVEN LIMITED DISTRIBUTION WITHIN GSL AND SHOULD BE STRICTLY PROTECTED. DATA ARRANGED TO CONFORM AS CLOSELY AS POSSIBLE TO IMF METHOD OF TABULATION.

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PAGE 02 COLOMB 01489 01 OF 02 280711Z

ORIGINAL FIGURES IN SRI LANKA RUPEES CONVERTED TO US DOLLARS AS FOLLOWING AVERAGE PER DOLLAR OFFICIAL EXCHANGE RATES:

1976, RS. 8.43; AND 1977, RS. 7.57 (ASSUMING NO CHANGE IN PRESENT RATE OF RS. 7.28 FOR REST OF YEAR.)

SRI LANKA BALANCE OF PAYMENTS

ESTIMATED 1976 AND PROJECTED 1977 AS OF MID-APRIL 1977

(US\$ MILLIONS)

	ESTIMATED PROJECTED	
	1976	1977
(A) EXPORTS (FOB)	560	799
A) TEA	(249)	(459)
B) RUBBER	(106)	(131)
C) COCONUT	(44)	(22)
D) PETROLEUM PRODUCTS	(60)	(59)
E) OTHER	(101)	(128)
(B) IMPORTS (CIF)	- 618	- 976
A) FOOD GRAINS	(-204)	(-239)
B) CRUDE AND REFINED PETROLEUM	(-137)	(-148)
C) OTHER	(-277)	(-589)
(C) TRADE BALANCE (A PLUS B)	- 58	- 177
(D) NET INVISIBLES	61	58
OF WHICH: OFFICIAL GRANTS	(49)	(40)
(E) CURRENT ACCOUNT BALANCE	3	- 119
(C PLUS D)		
(F) AID RECEIPTS (NET)	70	140
OF WHICH: AMORTIZATION	(-47)	(-31)
(G) CREDITS (NET)	-16	-45
OF WHICH: AMORTIZATION	(-175)	(-113)
(H) IMF BORROWING (NET)	9	-36
OF WHICH: REPAYMENTS	(-24)	(-36)
(K) INTERNATIONAL RESERVES	-66	--
(J) ESTIMATED F/X GAP		
(E PLUS F PLUS G PLUS H)	--	60

3. 1976. ABOVE ESTIMATES FOR 1976 WERE PREPARED BY ERD FOR LIMITED OFFICIAL USE

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PAGE 03 COLOMB 01489 01 OF 02 280711Z

FEBRUARY WORLD BANK MISSION. AS CENTRAL BANK IS NOW COMPILING PRELIMINARY BALANCE OF PAYMENTS DATA OF 1976 FOR INCLUSION IN BANK'S ANNUAL RPORT DUE OUT IN MAY, ERD WILL NOT UPDATE FEBRUARY ESTIMATES. SINCE THESE ESTIMATES WERE FULLY DISCUSSED IN WORLD BANKREPORT NO. 1425-CE, FEBRUARY 28, 1977, THIS CABLE WILL CONCENTRATE ON DESCRIPTION OF LATEST PROJECTIONS FOR 1977.

4. 1977. REVISED PROJECTIONS SHOWN ABOVE WERE PREPARED IN MID-APRIL AND ARE VERY DIFFERENT FROM ORIGINAL PROJECTIONS MADE LAST DECEMBER (REFTEL A) AND ALSO SUPERSEDE WORLD BANK FIGURES FOR 1977. IN INTERVENING PERIOD, TEA PRICES HAVE ROCKETED UPWARD, RUPEE WAS REVALUED BY 20 PERCENT, AND GSL EMBARKED ON PRE-ELECTION EFFORT TO WIN VOTES BY FLOODING COUNTRY WITH PREVIOUSLY SCARCE FOOD AND CONSUMER GOODS.

5. ON BASISNIC ERD'S FEBRUARY ESTIMATES FOR 1976, TOTAL EXPORTS IN 1977 ARE NOW PROJECTED TO INCREASE BY A REMARKABLE 42.7 PERCENT. MAIN REASON FOR EXPECTED SHARP RISE IN EXPORT

EARNINGS IS SUDDEN SURGE IN TEA PRICES WHICH HAVE MORE THAN DOUBLED IN PAST FEW MONTHS. ALTHOUGH VOLUME OF TEA EXPORTS IS EXPECTED TO DROP FROM 441 MILLION LBS. IN 1976 TO 425 MILLION LBS. IN 1977, TOTAL VALUE OF TEA EXPORTS PROJECTED TO INCREASE 84.3 PERCENT. ECONOMIST IN ERD WHO PREPARED PROJECTIONS, HOWEVER, INDICATED AVERAGE ANNUAL EXPORT PRICE OF \$1.08 PER LB. (WHICH IS CURRENT RECORD HIGH AVERAGE COLOMBO AUCTION PRICE) USED IN PROJECTION MAY BE TOO OPTIMISTIC. VOLUME OF RUBBER EXPORTS IS EXPECTED TO INCREASE FROM 302 TO 330 MILLION LBS. IN 1977 AND PRICE TO RISE FROM AVERAGE OF \$0.35 TO \$0.40 PER LB. TO PRODUCE ANTICIPATED 23.6 PERCENT INCREASE IN EXPORT VALUE. SRI LANKA'S COCONUT INDUSTRY, WHICH HAS TRADITIONALLY PROVIDED COUNTRY'S THIRD MAJOR EXPORT, HAS FALLEN ON HARD TIMES AND EXPORT VALUE (IN NUT EQUIVALENT) OF COCONUT OIL, DESSICATED COCONUT, AND COPRA IS EXPECTED TO DROP FROM 803 MILLION NUTS IN 1976 TO ONLY 340 MILLION NUTS IN 1977. AN ANTICIPATED 18 PERCENT INCREASE IN WORLD PRICES WILL LIMITED OFFICIAL USE

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PAGE 04 COLOMB 01489 01 OF 02 280711Z

ONLY PARTIALLY OFFSET DECLINE IN VOLUME AND ERD PROJECTS 50 PERCENT DRNP IN TOTAL VALUE OF COCONUT EXPORTS THIS YEAR. DESPITE HIGH SW WORLD PETROLEUM PRICES, EXPORTS OF REFINED PETROLEUM PRODUCTS ARE EXPECTED TO DROP SLIGHTLY AS GREATER PROPORTION OF REFINERY OUTPUT IS DIVERTED TO MEET LOCAL DEMAND. ERD FORESEES CONTINUED EXPANSION OF SOME NON-TRADITIONAL EXPORTS WITH "OTHER" CATEGORY GROWING BY 26.7 PERCENT IN 1977; GROWTH WILL BE GENERATED ALMOST ENTIRELY BY INDUSTRIAL EXPORTS, HOWEVER, WHILE GEMS AND MINOR AGRICULTURAL EXPORTS EXPECTED TO SHOW LITTLE OR NO INCREASE IN EXPORT VALUE. IN DISCUSSING METHODOLOGY OF EXPORT PROJECTIONS, ERD ECONOMIST ADMITTED DIFFICULTY OF ASSESSING IMPACT OF RUPEE REVALUATION AND EXPRESSED PRIVATE VIEW THAT ACTUAL EXPORTS MAY FALL SHORT OF PROJECTIONS.

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PAGE 01 COLOMB 01489 02 OF 02 280722Z
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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 AGRE-00 PA-01 PRS-01 /080 W

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P 280550Z APR 77

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LIMITED OFFICIAL USE SECTION 2 OF 2 COLOMBO 1489

6. WHILE EXPORT EARNINGS IN 1977 MAY EXPAND RAPIDLY, TOTAL VALUE OF IMPORTS ARE PROJECTED TO GROW AN EVEN FASTER 57.9 PERCENT. FOOD GRAIN IMPORTS ARE FORECAST TO RISE 17.2 PERCENT IN VALUE DESPITE LOWER WORLD WHEAT PRICES. TOTAL IMPORT TONNAGE OF RICE, FLUR, AND WHEAT GRAIN IS PROJECTED TO BE 30 PERCENT HIGHER IN 1977 THAN IN 1976 EVEN THOUGH CHANCES ARE GOOD THAT THIS YEAR WILL SEE A RECORD RICE HARV-

EST (DETAILED FOOD GRAIN

SITUATION REPORT IN PREPARATION): VOLUME OF RICE IMPORTS EXPECTED TO GO UP 18.4 PERCENT TO 502,800 METRIC TONS, FLOUR IMPORTS TO JUMP 49.3 PERCENT TO REACH 575,300 TONS, AND MOUNT OF WHEAT GRAIN TO INCREASE BY 9 PERCENT. IF REALIZED, PROJECTED LEVELTHE ANNUAL RICE IMPORTS WOULD BE THIRD LARGEST IN SRI LANKA'S HISTORY. ONLY TWO YEARS WITH HIGHER RICE IMPORTS WERE 1970 (526,000 TONS) AND 1965 (642,000 TONS).

STUDENTS OF RECENT SRI LANKAN HISTORY WILL NOTE THAT THESE, LIKE 1977, WERE ELECTION YEARS. PROJECTED AMOUNT OF FLOUR IMPORTS IS RECORD HIGH AND REFLECTS GSL PRICING POLICY WHICH MAKES FLOUR AND BREAD CHEAPER THAN SUBSIDIZED RATION RICE.

7. PETROLEUM IMPORTS ARE EXPECTED TO INCREASE BY 8.0 PERCENT DUE ENTIRELY TO HIGHER IMPORT PRICES. VOLUME OF IMPORTED CRUDE
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PAGE 02 COLOMB 01489 02 OF 02 280722Z

OIL IS PROJECTED TO DROP SLIGHTLY FROM 10.6 TO 10.5 MILLION BARRELS.

8. TOTAL VALUE OF "OTHER" IMPORTS FORECAST TO MORE THAN DOUBLE IN 1977. INCREASE IN THIS CATEGORY TOTALS \$312 MILLION: MAJOR INCREASES PROJECTED FOR TEXTILES (\$89 MILLION), PRIVATE SECTOR RAW MATERIALS AND CAPITAL GOODS (\$47 MILLION), GOVERNMENT CORPORATIONS (\$41 MILLION), SUGAR (\$41 MILLION), OTHER FOOD PRODUCTS SUCH AS CANNED AND DRIED FISH, CORRIANDER, MILK PRODUCTS, ETC. (\$29 MILLION), AND TRADE QUOTA ITEMS SUCH AS TEA CHEST FROM USSR (\$23 MILLION). SHARP INCREASES IN TEXTILES, SUGAR, AND OTHER FOOD IMPORTS IS DUE TO GSL'S PRE-ELECTION PROGRAM TO WIN VOTES, WHILE HIGHER RAW MATERIAL AND CAPITAL GOODS IMPORTS FROM PRIVATE AND GOVERNMENT INDUSTRY REFLECT EFFORT TO MAKE UP FOR UNDER UTILIZATION OF FOREIGN

EXCHANGE ALLOCATIONS IN 1976 (REFTEL A).

9. TRADE BALANCE DEFICIT PROJECTED TO MORE THAN TRIPLE IN 1977 OVER 1976, BUT DEFICIT IN 1976 WAS UNUSUALLY LOW DUE TO DROP IN IMPORTS AS A RESULT OF LOWER WORLD GRAIN PRICES AND UNDERUTILIZATION OF FOREIGN EXCHANGE ALLOCATIONS. PROJECTED 1977 DEFICIT IS ACTUALLY A BIT LOWER THAN RECORDED IN 1974 AND 1975. SHOULD WORLD TEA PRICES WEAKEN DURING COURSE OF YEAR, HOWEVER, TRADE DEFICIT COULD BE LARGER THAN EXPECTED. ON OTHER HAND, IMPORT PROGRAM IS ALSO VERY AMBITIOUS IN LIGHT OF 1976 IMPORT SHORTFALLS AND DIFFICULTY GSL IS HAVING IN UNLOADING AND DISTRIBUTING FLOOD OF CONSUMER GOODS (REFTEL B). CONSEQUENTLY, TRADE DEFICIT SHOWN ABOVE SHOULD BE CONSIDERED VERY TENTATIVE FIGURE.

10. NET INVISIBLE EARNINGS IN 1977 ARE FORECAST TO DECLINE SLIGHTLY; INCREASE IN MAJOR INVISIBLE ITEMS, WHICH DOES NOT TAKE ACCOUNT OF ADVERSE IMPACT REVALUATION MAY HAVE ON TOURISM OR HEAVY DEMURRAGE CHARGES GSL PAYING FOR UNLOADING DELAYS IN COLOMBO PORT, MORE THAN OFFSET BY DROP IN GRANTS LIMITED OFFICIAL USE

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PAGE 03 COLOMB 01489 02 OF 02 280722Z

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11. CURRENT ACCOUNT BALANCE, WHICH EDGED INTO SURPLUS IN 1976 FOR FIRST TIME SINCE TQOYTN IS EXPECTED TO PLUNGE BACK INTO RED TO REACH \$119 MILLION IN 1977. ERD ANTICIPATES DOUBLING OF NET AID RECEIPTS FROM COMMODITY AND PROJECTION LOANS, INCLUDING \$8 MILLION FROM OPEC SPECIAL FUND. INFLOW OF COMMERICAL CREDITS EXPECTED TO BE EXCEEDED BY REPAYMENTS WITH NET REDUCTION IN SRI LANKA'S SHORT-TERM INDEBTEDNESS. WITH NO NEW IMF DRAWINGS ANTICIPATED, SCHEDULED REPAYMENTS WILL ALSO REDUCE SRI LANKA'S LIABILITIES TO FUND. CURRENT PROJECTION SHOWS UNCOVERED FOREIGN EXCHANGE GAP OF \$60 MILLION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, ECONOMIC ESTIMATES, TRADE DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 28-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977COLOMB01489
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770148-0567
Format: TEL
From: COLOMBO
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Litigation History:
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Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 COLOMBO 82, 77 COLOMBO 1212
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2670394
Secure: OPEN
Status: NATIVE
Subject: SRI LANKA BALANCE OF PAYMENTS: ESTIMATES FOR 1976 AND REVISED PROJECTIONS FOR 1977
TAGS: EFIN, EAID, CE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/722c3e9c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009